88-592

Supreme Court, U.S.
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In The

Supreme Court of the United States

October Term 1988

No. _____

PYROTRONICS CORPORATION,

Petitioner,

vs.

PYRODYNE CORPORATION,

Respondent,

PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FRANCIS A. UTECHT, JR.
Suite 510, Harbor Bank Building
11 Golden Shore
Long Beach, California 90802

Attorney for Petitioner

QUESTION PRESENTED

Should a court consider equitable defenses in an action to enforce an incontestable trademark registration.

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PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Petitioner Pyrotronics Corporation prays that a writ of certiorari issue to review the Judgement of the United States Court of Appeals for the Ninth Circuit in Appeal No. 87-3847 entered August 5, 1988, reversing the Order Denying Plaintiff's Motion for Preliminary Injunction filed March 31, 1987 by the United States District Court for the Eastern Division of Washington.

OPINIONS BELOW

The petitioner is Pyrotronics Corporation, a California Corporation located in Anaheim, California. Respondent is Pyrodyne Corporation, a Washington Corporation located in Spokane, Washington. The opinion of the Court of Appeals is reported at 847 F2d. 1398 and appears at appendix A hereto. The District Court's opinion is reported at 3 U.S. Patents Quarterly 2d. 1239 and appears at Appendix B hereto.

JURISDICTION

The ORDER of the Ninth Circuit Court of Appeals reversing the District Court was filed June 1, 1988 and a copy thereof appears at Appendix C hereto.

Pyrotronics timely filed a PETITION FOR REHEARING & SUGGESTION FOR REHEARING EN BANK June 15, 1988.

(1) An ORDER DENYING PETITION FOR REHEARING & SUGGESTION FOR REHEARING EN BANK was filed July 21, 1988 and a copy appears at Appendix D hereto.

(2) The JUDGEMENT of the Ninth Circuit Court of Appeals was filed August 5, 1988 and a copy thereof appears as Appendix E hereto.

(3) This petition was timely filed within 90 days from August 5, 1988.

(4) This Court's jurisdiction is invoked under 28 U.S.C. §1254 (1).

STATUTES INVOLVED

15 U.S.C. Section 1065
15 U.S.C. Section 1115
15 U.S.C. Section 1116 (a)

STATEMENT OF THE CASE

Pyrotronics has used the RED DEVIL trade mark on fireworks since March 1956, and has used RED DEVIL as a trade name since at least 1961. Pyrodyne originally purchased fireworks from Pyrotronics, but ceased buying fireworks from Pyrotronics in 1985. Pyrotronics then began selling fireworks in the Pacific Northwest under the RED DEVIL trade name, and Pyrodyne brought an action against Pyrotronics in the United States District Court for the Eastern District of Washington for tradename infringement and unfair competition under the Washington State law.

Concurrently with the filing of such suit Pyrodyne filed a motion for a preliminary injunction. Pyrotronics opposed such motion contending inter alia it had superior trademark rights in the mark RED DEVIL by virtue of its incontestable trademark registration for such mark. Pyrodyne defended against Pyrotronic's trademark rights by advancing the equitable defenses of laches and estoppel.

On March 31, 1987 the District Court denied Pyrodyne's motion for a preliminary injunction. The basis for this ruling was that since the incontestability provisions of the Lanham Act should be strictly construed as eliminating Pyrodyne's equitable

defenses against Pyrotronic's incontestable RED DEVIL trademark, Pyrodyne failed to demonstrate probable success on the merits. See ORDER DENYING PLAINTIFF'S MOTION FOR A PRELIMINARY INJUNCTION Appendix B.

Pyrodyne appealed the denial of its motion, and the Ninth Circuit Court of Appeals reversed the District Court's ORDER, ruling that Pyrodynes equitable defenses should be considered even though Pyrotronic's RED DEVIL trade mark is incontestable. The appellate court did not justify its decision by reference to the legislative history of the Lanham Act. Instead, the appellate court relied upon its earlier decision in Prudential Ins. Co. v. Gilbralter Financial Corp. 694 F. 2d 1150 (9th Cir.

1982) wherein the court ruled that the defense of laches is available against an incontestable mark. The Ninth Circuit's Prudential opinion, like the opinion in this case, does not make any reference to the legislative history of the Lanham Act.

ARGUMENT

The Question Presented Is Substantial

This writ should be allowed in order to provide direction to the lower courts for the construction and application of the incontestability provisions of the Lanham Act namely 15 U.S.C. §1065 and 15 U.S.C. §1115. The question presented is an important question of first impression in this Court.

This writ should also be allowed because the decision of the Ninth Circuit in this case is in direct conflict in principle with the rationale of this Court in Park 'N Fly v. Dollar Park and Fly 469 U.S. 189 (1985). In Park 'N Fly this Court reversed the Ninth Circuit's holding in Park 'N Fly 718 F2d. 327 that descriptiveness was available as a defense for a trademark infringer even though descriptiveness is not enumerated as a defense in §33 b of the Lanham Act (15 USC §1115b, supra)

District Courts have agreed and disagreed with the Ninth Circuit's decision in this case and in Prudential that equitable defenses are available against an incontestable trade mark.

For example, the following district court cases agree with the Ninth Circuit:

Cuban Cigar Brands v. Upmann 457 F. Supp. 1090 (S.D.N.Y. 1978)

Citibank, N.A. v. Cititrust 644 F. Supp. 1011 (E.D.N.Y. 1986)

Haviland & Cole v. Johann Haviland 269 F. Supp. 928 (S.D.N.Y. 1967)

District court decisions holding equitable defenses are not available against an incontestable mark are exemplified by:

Apple Growers Asso. v. Pelletti 153 F. Supp. 948 (D.C. Cal. 1957)

Montgomery Ward v. Wards Home Products 6 U.S. Patents Quarterly 2d. 2053 (N.D. Ill. 1988)

Deflecta-Shield v. Kar-Rite 1 U.S.Patents Quarterly 2d. 1236 (N.D. Ill. 1986)

Petitioner is aware that the Ninth Circuit presently has before it another uncited case which involves the same question presented by this writ, i.e. Appeal Nos. 88-5617 and 88-5672 Electric Products, Inc. v. Critzas Industries, Inc. The Electric Products appeal is from a decision of the United States District Court for the Central District of California wherein the District Court held the equitable defenses of acquiscence, laches and estoppel to be available against an incontestable trademark.

The Writ Should Be Granted

This Court in overuling the Ninth Circuit Park 'N Fly decision affirmed the Seventh Circuit's decision in Ever-Ready v. Union Carbide 531 F 2d 366 holding discriptiveness is not available as a defense against an incontestable mark since descriptiveness is not enumerated as a defense in §33b of the Lanham Act. This same principle was adopted by the Fifth Circuit in Serveco v. Shell Oil 617 F 2d 1178 (1980).

In reversing the Ninth Circuit this Court carefully reviewed the legislative history of the Lanham Act and concluded the incontestability provisions thereof should be strictly construed, i.e.:

"Nothing in the legislative history of the Lanham Act supports a departure from the plain language of the statutory provision concerning incontestability. Indeed, a conclusion that incontestable status can provide the basis for enforcement of the registrant's exclusive right to use a trade or service mark promotes the goals of the statute. The Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the good will of his business and to protect the ability of consumers to distinguish among competing producers. See S. Rep. No. 1333, at 3, 5. National protection of trademarks is desirable, congress concluded, because trademarks

foster competition and the maintenance of quality by securing to the producer the benefits of good reputation. Id., at 4. The incontestability provisions, as the proponents of the Lanham Act emphasized, provide a means for the registrant to quiet title in the ownership of his mark. See Hearings on H.R. 82 before the Subcommittee of the Senate Committee on Patents, 78th Cong., 2d Sess., 21 (1944) (remarks of Rep. Lanham); Id., at 21, 113 (testimony of Daphne Robert, ABA Committee on Trade mark Legislation); Hearings on H.R. 102 et at. before the Subcommittee on Trade Marks of the House Committee on Patents, 77th Cong., 1st Sess., 73 (1941) (remarks of Rep. Lanham). The opportunity to obtain incontestable status by satisfying the requirements of

§ 15 thus encourages producers to cultivate the good will associated with a particular mark." (105 S.Ct. 663)

In this case, the Washington District Court followed the Park 'N Fly direction of this court by strictly construing the defenses available against an incontestable trademark. The District Court held that since laches and estoppel were not enumerated as defenses against an incontestable mark in the Lanham Act, Pyrodyne failed to demonstrate probable success on the merits and its motion for a preliminary injunction should be denied.

The Ninth Circuit has not chosen to follow this Court's direction

that the Lanham Act be strictly construed:

> "to secure to the owner of the mark the good will of his business and to protect the ability of consumers to distinguish among competing producers" (supra)

Instead, the Ninth Circuit in this case, and in the Prudential and International Order of Job's Daughters relied upon as precedents in this case (Appendix A, pages 6289 and 6290), favored trademark infringers by choosing to "read the Lanham Act narrowly" so as to "narrow the protection afforded trademarks." Clearly, the Ninth Circuit has failed to follow the direction of this Court in Park 'N Fly.

The Ninth Circuit in this case mistakenly justified its ruling that equitable defenses are available against an incontestable mark by reliance upon 15 U.S.C. §1116. (Opinion, page 6209, Appendix A). This code section holds injunctions should issue for infringement of a registered mark "according to the principles of equity." Relying upon 15 U.S.C. §1116 to conclude 15 U.S.C. §1115 (b) does not foreclose equitable defenses confuses the issues involved. There is a basic distinction between the establishment of an incontestable trademark right under 15 U.S.C. §1115 (b) and the remedy against infringers of that right under 15 U.S.C. §1116. Principles of equity may be considered in determining the <u>scope of relief</u> available against an

infringer, but not in establishing the trademark owner's right to such relief.

If this Court accepts this writ and reviews the legislative history of the Lanham Act, it will note 15 U.S.C. §1064, 15 U.S.C. §1065 and 15 U.S.C. §1115 should be interpreted together, since these sections relate to incontestability. Each of these sections operates independently, although they obviously complement one another. Of these sections, the only one that refers to equitable defenses is 15 U.S.C. §1115 (a). 15 U.S.C. §1115 (a) states that a registered mark "shall be prima facie evidence of registrant's exclusive right to use the registered mark . . . but shall not preclude an opposing party from proving any legal

or equitable defense or defect which might have been asserted if such mark had not been registered." Because Congress specifically mentions equitable defenses in 15 U.S.C. §1115 (a), while omitting any such reference in 15 U.S.C. §1115 (b), the only logical conclusion must be that the ommission in 15 U.S.C. §1115 (b) was not an oversight. If it was concluded otherwise, as noted by the Court at 469 U.S. 672:

> "the practical value of an incontestable status would be nullified."

CONCLUSION

In Park 'N Fly this Court at footnote 22 469 U.S. 673 stated in that case it did not need address whether estoppel or laches are available in an action to enforce an incontestable mark. This case provides this Court with an opportunity to address and settle this important question.

This Petition for Certiorari should be granted.

Dated: September 30, 1988

Respectfully submitted,

ORIGINAL SIGNED
F. A. UTECHT

FRANCIS A. UTECHT, JR.
FULWIDER PATTON RIEBER LEE & UTECHT
11 Golden Shore, Suite 510
Long Beach, CA 90802
Telephone (213) 432-0453

Attorney for Petitioner
Pyrotronics Corporation

APPENDICES

APPENDIX "A"

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PYRODYNE CORPORATION, a Washington corporation, Plaintiff-Appellant-Cross-Appellee,	Nos. 8787-3847 87-4070
v.	D.C. No. CV-86-190
PYROTRONICS CORPORATION, a California corp., Defendant-Appellee-Cross-Appellant.	OPINION

Appeal from the United States District Court for the Eastern District of Washington
Alan A. McDonald, District Judge Presiding

Argued and Submitted
March 10, 1988--Seattle, Washington

Filed June 1, 1988

Before: Thomas Tang and William C. Canby, Jr., Circuit Judges, and Bruce R. Thompson,* District Judge.

Opinion by Judge Tang

*Honorable Bruce R. Thompson, Senior United States District Judge for the District of Nevada, sitting by designation.

SUMMARY

Copyright, Patent and Trademark/Injunction/Remedies

Appeal from denial of motion for preliminary injunction. Reversed in part, affirmed in part, and remanded. The court held that equitable defenses should be considered in an action to enforce an incontestable mark.

Appellee Pyrotronics is the owner of the incontestable trademark "Red Devil" for fireworks. Pyrotronics consented to Zebra Distributing's use of the name Red Devil in Zebra's corporate name in the Pacific Northwest territory. Zebra thereafter changed its name to Red Devil Fireworks Co. and then

to Pyrodyne Corporation. Appellant Pyrodyne has done business under the trade name Red Devil continuously since 1970. In late 1985, Pyrotronics opened an office in Spokane and began operations under the name Red Devil Fireworks Company. Since then Pyrotronics has expanded its use of the Red Devil name in Pyrodyne's trade areas. Pyrodyne requested that Pyrotronics cease using the Red Devil name in Pyrodyne's trade areas. Pyrotronics continued and Pyrodyne sued. Pyrotronic's subsequent counterclaim was based on its incontestable registration under the Lanham Act. Pyrodyne's reply raised the defenses of laches and estoppel. Pyrotronic filed for Chapter 11 and Pyrodyne's action was automatically stayed. However, Pyrotronics' sales

efforts in Pyrodyne's trade areas expanded. Pyrodyne received relief from the automatic stay. It then moved for a preliminary injunction. The district court denied the motion. Pyrotronics then moved for preliminary injunction, seeking to enjoin further infringment of Pyrotronics' registered trademark by Pyrodyne. The district court denied the motion.

[1] Following case law, equitable defenses should be considered in an action to enforce an incontestable mark. It follows, then, that equitable defenses should be considered in evaluating the probability of the success of Pyrodyne's claim against Pyrotronics when Pyrotronics' defense is based on the incontestability of its trademark. The district court's denial

of Pyrodyne's preliminary injunction motion was based on an erroneous legal standard and must be reversed.

COUNSEL

Francis A. Utecht, Fulwider Patton Rieber Lee & Utecht, Long Beach, California, for the defendant-appellee-cross-appellant.

James R. Uhler, Christensen, O'Connor, Johnson & Kindness, Seattle, Washington, for the plaintiff-appellant-cross-appellee.

OPINION

TANG, Circuit Judge:

Pyrodyne appeals the district court's denial of its motion for preliminary

injunction to order Pyrotronics to cease infringing Pyrodyne's trade name, Red Devil Fireworks, in Washington, Oregon, Alaska, Northern Idaho and Montana. Pyrotronics, in turn, appeals the district court's denial of its motion for preliminary injunction in the same action. The dispute concerns ownership of and rights to the name "Red Devil" as used in connection with the sale of fireworks. Pyrotronics owns an incontestable trademark in the name Red Devil. Pyrodyne asserts ownership rights in the trade name Red Devil based upon its exclusive use of the name in its trade area for more than fifteen years. We must decide whether Pryodyne can use the equitable defenses of laches and estoppel to defend against Pyrotronics'

incontestable trademark registration.

FACTUAL BACKGROUND

Pyrotronics is the owner of Federal Trademark Registration No. 857,753 for the trademark "Red Devil" for fire-works. The registered mark has become incontestable under §15 of the Lanham Trademark Act, 15 U.S.C. §1065 (1982). In 1970 Pyrotronics' Chairman of the Board and principal shareholder, Patrick Moriarity, was also Chairman and principal shareholder of Zebra Distributing Co., Inc. (Zebra), which later became Pyrodyne. On July 17, 1970, Pyrotronics' Board of Directors unanimously consented to Zebra's use of the name Red Devil in Zebra's corporate name in the Pacific Northwest Territory

trade area, where Pyrotronics had never before operated.[1] Zebra thereafter changed its name to Red Devil Fireworks Co. of Washington, Inc. In 1971 the corporate name was again changed, to Pyrodyne Corporation. Pyrodyne has done business under the trade name Red Devil continuously since 1970.

Between 1970 and 1985 the Directors, officers and shareholders of Pyrodyne and Pyrotronics were closely intertwined. During much of that period Pyrodyne purchased fireworks for resale from Pyrotronics. In 1977, 1978 and 1979 Pyrotronics assisted Pyrodyne in purchasing fireworks directly from the

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[1] The Pacific Northwest Territory includes Washington, Oregon, Alaska, Idaho and Montana.

Orient. During the past ten years Pyrodyne has expended over $500,000 to advertise and promote fireworks sales under the name Red Devil.

On January 2, 1985, Byington, Pyrodyne's president, wrote to Hescox, Pyrotronics' president, requesting that Hescox reconfirm the grant from Pyrotronics giving Pyrodyne the right to use the name Red Devil. On January 10, 1985, Hescox responded by letter, reconfirming the 15-year old agreement whereby Pyrotronics granted Pyrodyne permission to use the name Red Devil. In late 1985, however, Pyrotronics opened an office in Spokane, Washington and began operations under the name Red Devil Fireworks Company. Since then Pyrotronics has expanded its use of the Red Devil name in Pyrodyne's trade areas.

PROCEDURAL BACKGROUND

On March 3, 1986, Pyrodyne's attorney requested that Pyrotronics cease using the Red Devil name in Pyrodyne's trade areas. When Pyrotronics continued its operations, Pyrodyne filed suit in district court for trade name infringement, unfair competition and deceptive trade practices. Jurisdiction in the district court was based on diversity of citizenship. Pyrotronics answered and counterclaimed. Its counterclaim was based on its incontestable registration under the Lanham Act. Pyrodyne's reply to the counterclaim raised the defenses of laches and estoppel.

On June 6, 1986, Pyrotronics filed for protection under Chapter 11 of the

Bankruptcy Code, and Pyrodyne's action was automatically stayed. However, Pyrotronics' sales efforts in Pyrodyne's trade area expanded, and on December 1, 1986, the bankruptcy court granted Pyrodyne relief from the automatic stay to allow it to pursue its action in district court. Pyrodyne then filed a motion for preliminary injunction in district court.

The district court denied the motion, concluding that in light of Pyrotronics' incontestable trademark registration Pyrodyne had failed to demonstrate probable success on the merits. The district court based its conclusion on its holding "that the incontestability provisions of the Landham Act should be strictly construed as eliminating equitable defenses." Accordingly, the

district court rejected Pyrodyne's argument that its permissive right to use the Red Devil trade name over the past sixteen years constituted a legally enforceable, irrevocable consent agreement or that laches barred Pyrotronics from revoking its consent. Pyrodyne filed a notice of appeal on April 29, 1987.

On May 7, 1987, Pyrotronics filed its motion for preliminary injunction, seeking to enjoin further infringement of Pyrotronics' registered trademark by Pyrodyne. The district court denied Pyrotronics' motion on the basis that Pyrodyne's April 29 notice of appeal divested the district court of jurisdiction over the matters appealed. Pyrotronics filed a notice of appeal from that ruling on July 20, 1987.

ANALYSIS

We have jurisdiction pursuant to 28 U.S.C. §1292(a)(1)(Supp.1987). We will reverse the denial of a preliminary injunction only where the district court abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact. Rodeo Collection, Ltd. v. West Seventh, 812 F.2d 1215, 1217 (9th Cir.1987).

Registration of an incontestable trademark "shall be conclusive evidence of the registrant's exclusive right to use the registered mark" subject to the conditions and limitations of 15 U.S.C. §1065 (Supp.1988)[2] and the defenses enumerated in 15 U.S.C. §1115(b) (1982).[3] It is undisputed that

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[2] 15 U.S.C. §1065 provides:

Pyrotronics owns an incontestable

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§1065. Incontestability of right to use mark under certain conditions

Except on a ground for which application to cancel may be filed at any time under subsections (c) and (e) of section 1064 of this title, and except to the extent, if any, to which the use of a mark registered on the principal register infringes a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of registration under this chapter of such registered mark, the right of the registrant to use such registered mark in commerce for the goods or services on or in connection with which such registered mark has been

trademark in the name Red Devil. The

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in continuous use for five consecutive years subsequent to the date of such registration and is still in use in commerce shall be incontestable: Provided, That

1) there has been no final decision adverse to registrant's claim of ownership of such mark for such goods or services, or to registrant's right to register the same or to keep the same on the register; and

2) there is no proceeding involving said rights pending in the Patent and Trademark Office or in a court and not finally disposed of; and

mark is not subject to any of the

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3) an affidavit is filed with the Commissioner within one year after the expiration of any such five-year period setting forth those goods or services stated in the registration on or in connection with which such mark has been in continuous use of such five consecutive years and is still in use in commerce, and the other matters specified in subsection (1) and (2) of this section; and

4) no incontestable right shall be acquired in a mark which is the common descriptive name of any article or substance, patented or otherwise.

conditions or enumerated defenses in 15

Subject to the conditions above specified in this section, the incontestable right with reference to a mark registered under this chapter shall apply to a mark registered under the Act of March 3, 1881, or the Act of February 20, 1905, upon the filing of the required affidavit with the Commissioner within one year after the expiration of any period of five consecutive years after the date of publication of a mark under the provisions of subbsection (c) of section 1062 of this title.

The Commissioner shall notify any registrant who files the above-prescribed affidavit of the filing thereof.

U.S.C. §§1065 or 1115(b). Based on the

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[3]15 U.S.C. §1115(b) provides:

(b)If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

(1) That the registration or the incontestable right to use the mark was obtained fraudulently; or

equitable defenses of laches and

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(2) That the mark has been abandoned by the registrant; or

(3) That the registered mark is being used, by or with the permission of the registrant or a person in privity with the registrant, so as to misrepresent the source of the goods or services in connection with which the mark is used; or

(4) That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business; or of the individual name of anyone in privity with such party, or of a term or device

estoppel, Pyrodyne challenges

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which is descriptive of and used fairly and in good faith only to describe to users the goods or services of such party, or their geographic origin; or

(5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to registration of the mark under this chapter or publication of the registered mark under subsection (c) of section 1062 of this title: provided, however, That this defense or defect shall apply only for the area in which such continuous prior use it proved; or

Pyrotronics' assertion that it has the

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(6) That the mark whose use is charged as an infringement was registered and used prior to the registration under this chapter or publication under subsection (c) of section 1062 of this title of the registered mark of the registrant, and not abandoned: Provided, however, That this defense or defect shall apply only for the area in which the mark was used prior to such registration or such publication of the registrant's mark; or

(7) That the mark has been or is being used to violate the antitrust laws of the United States.

exclusive right to use the Red Devil name in the Pacific Northwest Territory. We hold that Pyrodyne's equitable defenses should be considered in evaluating Pyrotronics' claim that it had the sole right to use the trade name "Red Devil" because of its incontestable trademark.

In Prudential Ins. Co. v. Gibraltar Financial Corp., 694 F.2d 1150, 1153 (9th Cir. 1982), cert. denied, 463 U.S. 1208 (1983), this curcuit ruled that the defense of laches is available against an incontestable mark. Prudential sought to enjoin Gibraltar's use of Prudential's corporate symbol, a picture of the Rock of Gibraltar. Gibraltar had used the rock logo for 28 years. Prudential argued that only the defenses enumerated in 15 U.S.C. §1115(b) could apply against incontestable marks.

Gibraltar argued that 15 U.S.C. §1116 allows courts to grant injunctions "according to the principles of equity."[4] we stated:

> This court considers incontestability to be a defensive provision only. It helps protect the registrant's mark from cancellation but is of no offensive use. Incontestability does not preclude a defense of laches. Tillamook County Creamery Ass'n. v. Tillamook

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[4]15 U.S.C. §1116 provides in pertinent part:

§1116. Injunctive relief.

(a) Jurisdiction;...

Cheese and Dairy Ass'n, 345 F.2d 158, 163 (9th Cir.), cert. denied, 382 U.S. 903 (1965).

Prudential, 694 F.2d at 1153. We also noted that the availability of a laches defense narrows the protection afforded trademarks, and that for policy reasons this curcuit has chosen to read the

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The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grand injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office.....

(emphasis supplied).

Lanham Act narrowly. Id. [citing Int'l Order of Job's Daughters v. Lindeburg & Co., 633 F.2d 912, 918 (9th Cir.), cert. denied, 452 U.S. 941 (1981)].

In Park'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 205 (1985), the Supreme Court held "that the holder of a registered mark may rely on incontestability to enjoin infringement and that such an action may not be defended on the grounds that the mark is merely descriptive." The Court disapproved this circuit's decision in Tillamook County Creamery, supra, that a registrant may not rely on incontestability as an offensive weapon to enjoin the use of a mark by others and instead can only use an incontestable mark defensively. Park'N Fly, 469 U.S. at 203. However, Park'N Fly explicitly left open the question

"whether traditional equitable defenses such as estoppel or laches are available in an action to enforce an incontestable mark." Id. at 203, n.7.

We have reexamined Prudential in light of Park'N Fly. We hold that Prudential mandates that equitable defenses can be considered in an action to enforce an incontestable mark. See also E-Systems, Inc., v. Monitek, Inc., 720 F.2d 604, 607 (9th Cir. 1983) (laches can bar recovery in a trademark action where injunctive relief is sought); cf., Fuddruckers, Inc. v. Doc's B. R. Others, Inc., 826 F.2d 837, 847 (9th Cir. 1987) (equitable defense of unclean hands is a defense to a Lanham Act trade dress infringement suit). Equitable defenses are personal defenses which do not attack the validity of a mark's registration. Injunctions should issue

"according to the principals of equity." 15 U.S.C. §1116.

Our decision is guided by United States Jaycees v. Cedar Rapids Jaycees, 794 F.2d 379 (8th Cir. 1986). The Jaycees court observed that although the owner of an incontestable mark is generally entitled to injunctive relief, the grant of injunctive relief is not a ministerial act flowing as a matter of course. Id. at 382 [citing Weinberger v. Romero-Barcelo, 456 U.S. 305, 313 (1982)]. It distinguished Park'N Fly, stating: "While the [Park'N Fly] Court did say that the equitable power granted under §1116 does not expand the seven enumerated defenses to the validity of an incontestable mark under §1115(b), it specifically did not address" the question whether traditional equitable defenses are available in an action to

enforce an incontestable mark. United States Jaycees, 794 F.2d at 382.

[1] When ruling on Pyrodyne's preliminary injunction motion, the district court concluded that Pyrodyne had failed to show probably success on the merits. See Rodeo Collections, Ltd., 812 F.2d at 1217 ("To qualify for a preliminary injunction, the moving party must show either (1) a combination of probably success on the merits and the possibility of irreparable harm, or (2) that serious questions are raised and the balance of the hardships tips sharply in the moving party's favor.") The district court's ruling was explicitly based on its finding that equitable defenses were unavailable to Pyrodyne. We hold that equitable defenses should be considered in an action to enforce an incontestable

mark. It follows that equitable defenses should be considered in evaluating the probability of the success of Pyrodyne's claim against Pyrotronics when Pyrotronics' defense, (as well as its counterclaim), is based on the incontestability of its trademark. The district court's denial of Pyrodyne's preliminary injunction motion was based on an erroneous legal standard and must be reversed. Id. Accordingly, we remand to the district court for reconsideration using the correct legal standard.

In a separate appeal Pyrotronics argues that the district court's denial of its motion for preliminary injunction was in error. We disagree. The district court properly ruled that Pyrodyne's filing of notice of appeal on April 29, 1987, divested the district

court of jurisdiction over the matters appealed. McClatchy Newspapers v. Central Valley Type, etc., 686 F.2d 731, 734 (9th cir.), cert. denied, 459 U.S. 1071 (1982). A district court does retain the power to preserve the status quo while the case is pending in the appellate court; however, it cannot finally adjudicate substantial rights involved in the appeal. Id., at 734-35.[5] The district court properly concluded that it was without jurisdiction to rule on Pyrotronics' motion while the issue of the scope of Pyrodyne's defenses was pending in this court.

CONCLUSION

Under Prudential incontestability does not preclude equitable defenses. We do not reach the merits of the dispute.

The cause is remanded to the district court for reconsideration of Pyrodyne's motion for preliminary injunction using the correct legal standard.

REVERSED in part, AFFIRMED in part, and REMANDED.

---

[5]Pyrotronics agrees that McClatchy would normally control, but argues that the district court abused its discretion by failing to grand a conditionally delayed injunction. Pyrotronics stipulated that if the preliminary injuction was granted it would only become effective if and when this court ruled that laches and estoppel are not available to Pyrodyne; if this court ruled estoppel are available, the preliminary injunction would have no effect. Because we hold that equitable

defenses are available to Pyrodyne, that issue is now moot. We note, however, that a "conditionally delayed" injunction makes little sense in light of a preliminary injunction's purpose to avoid irreparable injury unless immediate action is taken. William Inglis v. ITT Continental, 526 F.2d 86, 88 (9th Cir. 1975).

PUBLISHER'S NOTE:

The following pages are unavailable for filming:

52 & 53

APPENDIX "B"

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WASHINGTON

PYRODYNE CORPORATION, a Washington Corporation,	)	
Plaintiff,	)	No. C-86-190
v.	)	ORDER DENYING PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION
PYROTRONICS CORPORATION, a California Corp.,	)	
Defendant.	)	

Pending in the above-entitled matter is Plaintiff's Motion for Preliminary Injunction (Ct. Rec. 10). Plaintiff is represented by James Uhlir and David Roberts. Francis Utecht has appeared on behalf of the defendant.

By order dated January 26, 1987 (Ct. Rec. 27), the parties were directed to file supplemental memoranda with respect to the distinction between use of a tradename as opposed to a trademark for infringement purposes under the Lanham Act. Upon consideration of the

memoranda filed to date, it plainly appears that there does not exist cause sufficient to warrant the exercise of this court's discretion in granting Plaintiff's motion. Accordingly, Plaintiff's motion is hereby DENIED.

In that regard, the court specifically finds that the incontestability provisions of the Lanham Act should be strictly construed as eliminating equitable defenses. This precise issue was recently decided in Deflecta-Shield v. Kar-Rite, Corp., 1 USPQ 2d (N.D. Ill., September 16, 1986), where the court held that §1115(b) does not include estoppel or laches as defenses. Hence, Defendant's incontestable trademark registration constitutes

conclusive evidence of its exclusive right to use the mark "Red Devil Fireworks."

Based on the foregoing, the court rejects Plaintiff's argument that the permissive right to use the Red Devil tradename over the past sixteen years constitutes a legally enforceable irrevocable consent agreement and/or that Defendant is barred by laches from revoking its consent. Nor does the court find persuasive the cases cited by Plaintiff for the proposition that incontestability does not preclude a defense of laches. The cases are easily distinguishable as set forth in Defendant's brief. Moreover, it is noteworth that the Supreme Court in Park'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189 (1985) declined to address the issue whether equitable

defenses are available in an action to enforce an incontestable mark. Id. at 203, n.7.

The result reached in this case is consistent with the legislative history of the Lanham Act and the plain language of the statutory provisions concerning incontestability. As explained by the Court in Park'N Fly, Inc.:

> The Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers (citation omitted). National protection of trademarks is desirable, Congress concluded, because trademarks foster competition and the maintenance of qualaity by securing to the pro-

> ducer the benefits of good reputation (citation omitted). The incontestability provisions, as the proponents of the Lanham Act emphasized, provide a means for the registrant to quiet title in the ownership of his mark (citations omitted). The opportunity to obtain incontestable status by satisfying the requirements of §15 thus encourages producers to cultivate the goodwill associated with a particular mark.
>
> Id. at 198

To qualify for a preliminary injunction, the movant must show either (1) a combination of probable success on the merits and the possibility of irreparable harm, or (2) that serious questions are raised and the balance of hardships tips sharply in the moving

party's favor. Rodeo Collection, Ltd. v. West Seventh, Slip. Op. No. 86-5960 (March 17, 1987). In the case at bar, at the very least Plaintiff has not demonstrated probable success on the merits or irreparable harm in light of Defendant's incontestable trademark registration. Hence, Plaintiff's Motion for Preliminary Injunction must be denied.

IT IS SO ORDERED. The Clerk is directed to enter this order and forward copies to counsel.

DONE BY THE COURT this 31 day of March, 1987.

ALAN A. McDONALD
United States
District Judge

APPENDIX "C"

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PYRODYNE CORPORATION, a Washington Corporation,	) NOS. 87-3847) 87-4070
Plaintiff-Appellee,	) D.C.#) CV-86-190
vs.	) ORDER DENYING
PYROTRONICS CORPORATION, a California Corp.,	) PETITION FOR) REHEARING &
Defendant-Appellant.	) SUGGESTION) FOR REHEARING) IN BANC

Before: TANG and CANBY, Circuit Judges, and B. Thompson,* District Judge.

The panel as constituted above has voted to deny the petition for rehearing and to reject the suggestion for rehearing en banc.

The full court has been advised of the suggestion for rehearing en banc, and no

---

* Honorable Bruce R. Thompson, Senior United States District Judge for the District of Nevada, sitting by designation.

judge of the court has requested a vote on the suggestion for rehearing en banc. Fed. R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

PETITION OF APPELLEE PYROTRONICS FOR REHEARING WITH SUGGESTION FOR REHEARING EN BANC

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 87-3847

PYRODYNE CORPORATION,

Plaintiff-Appellee,

v.

PYROTRONICS CORPORATION,

Defendant-Appellant.

On Appeal from Order of the United States District Court for the Eastern District of Washington

---

Petitioner-Appellee

Pyrotronics Corporation seeks en banc consideration of this Court's opinion filed June 1, 1988 because the present proceeding involves a question of exceptional importance to the practice of trademark law.

Question Presented

The sole question presented is whether equitable defenses can be considered in an action to enforce an incontestable trademark registration.

Factual Background

Pyrotronics is the owner of the incontestable trademark "RED DEVIL" for fireworks. Appellant Pyrodyne

Corporation was permitted by Pyrotronics to use the tradename "RED DEVIL" in the Pacific Northwest under an arrangement wherein Pyrodyne purchased its fireworks through Pyrotronics. Pyrodyne ceased purchasing fireworks from Pyrotronics. Pyrotronics then moved into the Pacific Northwest and sold fireworks under the "RED DEVIL" name. Thereafter, Pyrodyne filed a trade name infringement action against Pyrotronics in Spokane, Washington, and brought a Motion for a Preliminary Injunction against further use of RED DEVIL by Pyrotronics in the Pacific Northwest. The Washington District Court denied Pyrodyne's Motion, specifically finding that the incontestability provisions of the Lanham Act (35 U.S.C. §1115) should be strictly construed as eliminating

Pyrodyne's equitable defenses against Pyrotronic's RED DEVIL trademark registration. A copy of 35 U.S.C. §1115 is appended hereto for the convenience of this Court.

The Panel's Opinion Which Generated This Petition

In its Opinion filed June 1, 1988, a panel of this Court, without reaching the merits of the dispute, reversed the District Court's denial of Pyrodyne's Motion for Preliminary Injunction and remanded the cause to the District Court for reconsideration of such Motion. The panel reasoned that even though 35 U.S.C. §1115(b) did not list the equitable defenses of laches and estoppel as being available to a trademark infringer, this Court

has mandated in Prudential Ins. Co. v. Gibraltar Financial Corp. 694 F.2d 1150, 1153 (1982) that the defense of laches is available against an incontestable mark. The panel also referred to this Court's decisions in E-Systems, Inc. v. Monetek, Inc. 720 F.2d 604, 607 (1983) and Fudruckers, Inc. v. Doc's B.R. Others, Inc. 826 F.2d 837, 847 (1987). The panel's reliance on the latter two cases is not understood, since there is no indication in E-Systems that incontestability was urged, while Fudruckers did not even involve a registered trademark. The panel further stated it was guided by United States Jaycees v. Cedar Rapids Jaycees, 794 F.2d 379 (8th Cir. 1986). Such guidance seems misplaced, since the only pertinent guidance imparted to the

panel by the Jaycee's decision is that the Park-N-Fly Supreme Court did not address the question of whether traditional equitable defenses are available in an action to enforce an incontestable mark.

Discussion

At the district court level there is a split of authority both within and without the 9th Circuit as to whether or not equitable defenses are available against an incontestable trademark registration. In this circuit the following cases have held equitable defenses are not available. General Motors Corp. v. Smith, 138 USPQ 382 (S.D. Cal. 1963), Hudnut v. Dubarry, 127 U.S.P.Q. 486 (S.D. Cal. 1960) affirmed by this Court at 323

F.2d 986 (1963), and Apple Growers Ass'n v. Pelletti Fruit Co., 153 F.Supp. 948 (N.D. Cal. 1957). A recent District Court decision relied upon by the Washington District Court in this case is Deflecta-Shield v. Kar-Rite Corp., F.Supp. 1 USPQ 2d 1236 (N.D. Ill. Sept. 1986), where the Court held that the incontestability defenses do not include estoppel or laches. A case holding laches to be available as a defense to an incontestable registration is Dolby v. Robertson, 654 F.Supp. 815 (N.D. Cal. 1986).

This circuit appears to be the only circuit directly holding that equitable defenses are available against an incontestable mark. This Court so held in Prudential Insurance Co. v. Gibraltor Financial Corp., 694

F.2d 1150, 1153 (1982) cert. denied 463 US 1208 (1983). The panel in the present appeal relied upon Prudential in reversing the District Court's decision. It is the position of Petitioner Pyrotronics that the holdings of this Court in Prudential and in the present appeal overlooked the direction of the Supreme Court as expressed in Park-N-Fly Inc. v. Dollar Park-N-Fly, Inc., 469 US 189, (1985).

In Park-N-Fly the Supreme Court overruled this Court's Park-N-Fly decision that descriptiveness is available as a defense against an incontestable trademark. Certiorari was granted because the 9th Circuit Park-N-Fly decision was in direct conflict with the decision of the 7th Circuit in Ever-Ready, Inc. v. Union Carbide, 531 F.2d 366 which held

descriptiveness is not available as a defense against an incontestable mark. In reversing this Court's Park-N-Fly decision the Supreme Court clearly held that since descriptiveness was not enumerated as a defense against an incontestable mark in 15 USC §1115(b) it could not be relied upon as a defense by a trademark infringer.

Equitable defenses, like descriptiveness, are not enumerated as defenses in the incontestability statute. It is the position of Pyrotronics that there is no logical reason to differentiate between descriptiveness and equitable defenses with regard to their non-availability as defenses against an incontestable mark. Certainly, the panel in this case did not set forth any reasons to

differentiate between such defenses. Pyrotronic's contends that if this action provides the Supreme Court with an opportunity to decide this issue, it will hold that equitable defenses are no more available against an incontestable mark than is descriptiveness. Note, that the Supreme Court in Park-N-Fly carefully left open the question as to whether or not equitable defenses such as estoppel or laches are available against an incontestable mark, because such question was not before it, 469 U.S. 203 footnote 7.

Pyrotronic's conviction that the Supreme Court would equate equitable defenses with descriptiveness is bolstered by the Supreme Court's express approval of the

incontestability statute as furthering national protection of trademarks, as well as protection of customers, in the following Park-N-Fly language at 469 U.S. 203:

> "Nothing in the legislative history of the Lanham Act supports a departure from the plain language of the statutory provisions concerning incontestability. Indeed, a conclusion that incontestability status can provide the basis for enforcement of the registrant's exclusive right to use a trade or service mark promotes the goals of the statute. The Lanham Act provides national protection of trademarks in order to

secure to the owner of the mark the good will of his consumers to distinguish among competing producers. See S.Rep. No. 1333, at 3, 5. National protection of trademarks is desirable, Congress concluded, because trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation. Id., at 4. The incontestability provisions, as the proponents of the Lanham Act emphasized, provide a means for the registrant to quiet title in the ownership of his mark. See Hearings on H.R. 82 before the Subcommittee of the Senate

Committee on Patents, 78th Cong., 2d Sess., 21 (1944) (remarks of Rep. Lanham); Id., at 21, 113 (testimony of Daphne Robert, ABA Committee on Trade Mark Legislation); Hearings on H.R. 102 et al. before the Subcommittee on Trade-Marks of the House Committee on Patents, 77th Cong., 1st Sess., 73 (1941) (remarks of Rep. Lanham). The opportunity to obtain incontestable status by satisfying the requirements of §15 thus encourages producers to cultivate the good will associated with a particular mark."

Pyrotronics also considers the panel in the present appeal erred in holding that:

> "The availability of a laches defense narrows the protection afforded trademarks, and that for policy reasons this circuit has chosen to read the Lanham Act narrowly."

The 9th Circuit should not read the Lanham Act narrowly but instead should read the Lanham Act based upon the direction of the Supreme Court in Park-N-Fly, i.e., the Lanham Act should be interpreted sufficiently broadly to provide:

> "National protection of trademarks in order to secure

> to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers."

Finally, it should be noted that the Supreme Court in Park-N-Fly at 469 U.S. 203 criticized this Court for not attempting to justify its decision by reference to the language or legislative history of the Lanham Act. Instead the Court relied on its previous decision in Tillamook as justification for this Court's narrow interpretation of the Lanham Act. In this appeal, just as in Park-N-Fly, the panel did not attempt to justify its decision reversing the district court by reference to the language or legislative history of the Lanham Act.

Instead, the panel merely relied on this Court's previous decision in Prudential.

Conclusion

Petitioner Pyrotronics urges this Court to grant a rehearing of this appeal. If such rehearing is not granted, Petitioner urges this Court to at least justify its decision that equitable defenses are available against an incontestable mark by legal rationale, rather than simple reliance upon Prudential, in order to provide

the Supreme Court with the benefit of such rationale should certiorari be granted.

Respectfully submitted,

FULWIDER PATTON RIEBER LEE & UTECHT

Dated: June 9, 1988

By:_____
Francis A. Utecht
Attorney for Pyrotronics Corporation

APPENDIX "E"

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PYRODYNE CORPORATION, a Washington corporation,	)	No. 87-3847
	)	87-4070
Plaintiff-Appellant-Cross-Appellee,	)	DC No. CV-86-190
v.	)	
PYROTRONICS CORPORATION, a California Corp.,	)	
Defendant-Appellee-Cross-Appellant.	)	

APPEAL from the United States District Court for the Eastern District of Washington (Spokane).

THIS CAUSE came on to be heard on the Transcript of the Record from the United States District Court for the Eastern District of Washington (Spokane) and was duly submitted.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court, that the judgment of the said District Court in this Cause be, and hereby is REVERSED in part, AFFIRMED in part, and REMANDED.

Filed and entered June 1, 1988

APPENDIX "F"

2. 15 U.S.C. §1065 - Incontestability Of Right to Use Mark Under Certain Conditions

Except on a ground for which application to cancel may be filed at any time under subsections (c) and (e) of section 1064 of this title, and except to the extent, if any, to which the use of a mark registered on the principal register infringes a use of a mark or trade name continuing from a date prior to the date of registration under this chapter of such registered mark, the right of the registrant to use such registered mark in which such registered mark has been in continuous use for five consecutive years subsequent to the date of such registration and is still in use in commerce, shall be incontestable: Provided, That--

(1) there has been no final decision adverse to registrant's claim of ownership of such mark for such goods or services, or to registrant's right to register the same or to keep the same on the register; and

(2) there is no proceeding involving said rights pending in the Patent and Trademark Office or in a court and not finally disposed of; and

(3) an affidavit is filed with the Commissioner within one year after the expiration of any such five-year period setting forth those goods or services stated in the registration on or in connection with which such mark

has been in continuous use for such five consecutive years and is still in use in commerce, and the other matters specified in subsections (1) and (2) of this section; and

(4) no incontestable right shall be acquired in a mark which is the common descriptive name of any article or substance, patented or otherwise.

Subject to the conditions above specified in this section, the incontestable right with reference to a mark registered under this chapter shall apply to a mark registered under the Act of March 2, 1881, or the Act of February 20, 1905, upon the filing of the required affidavit with the Commissioner within one year after the expiration of

any period of five consecutive years after the date of publication of a mark under the provisions of subsection (c) of section 1062 of this title.

The Commissioner shall notify any registrant who files the above-prescribed affidavit of the filing thereof.

APPENDIX "G"

4. 15 U.S.C. §1115 - Registration on principal register as evidence of exclusive right to use mark; defenses

(a) Any registration issued under the Act of March 3, 1881, or the Act of February 20, 1905, or of a mark registered on the principal register provided by this chapter and owned by a party to an action shall be admissible in evidence and shall be prima facie evidence of a registrant's exclusive right to use the registered mark in commerce on the goods or services specified in the registration subject to any conditions or limitations stated therein, but shall not preclude an opposing party from proving any legal or equitable defense or defect which might have been asserted if such mark had not been registered.

(b) If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

(1) That the registration or the incontestable right to use the mark was obtained fraudulently; or

(2) That the mark has been abandoned by the registrant; or

(3) That the use of the name, term, or device charged to be an

infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods or services of such party, or their geographic origin; or

(5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to

registration of the mark under this chapter or publication of the registered mark under subsection (c) of section 1062 of this title: Provided, however, That this defense or defect shall apply only for the area in which such continuous prior use is proved; or

(6) That the mark whose use is charged as an infringement was registered and used prior to the registration under this chapter or publication under subsection (c) of section 1062 of this title of the registered mark of the registrant, and not abandoned: Provided, however, That this defense or defect shall apply only for the area in which the

mark was used prior to such registration or such publication of the registrant's mark; or

(7) That the mark has been or is being used to violate the antitrust laws of the United States

APPENDIX "H"

5. 15 U.S.C. §1116(a) - Injunctive Relief

(a) Jurisdiction; service

The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office. Any such injunction may include a provision directing the defendant to file with the court and service on the plaintiff within thirty days after the service on the defendant of such injunction,

or such extended period as the court may direct, a report in writing under oath setting forth in detail the manner and form in which the defendant has complied with the injunction. Any such injunction granted upon hearing, after notice to the defendant, by any district court of the United States, may be served on the parties against whom such injunction is granted anywhere in the United States where they may be found, and shall be operative and may be enforced by proceedings to punish for contempt, or otherwise, by the court by which such injunction was granted, or by any other United States district court in whose

jurisdiction the defendant may be found.

State of California)
) ss:
County of Los Angeles)

Raymond J. Myers, being duly sworn, deposes and says:

That he is a citizen and resident of the State of California over twenty-one (21) years of age, that he is employed by Francis A. Utecht, Jr., a member of the Bar of the Supreme Court, and that on the 5th day of October, 1988, he deposited in the United States Post Office at Long Beach, California three copies of PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT in a sealed envelope, with first-class postage thereon fully prepaid, and addressed to:

James R. Uhlir, Esq.
Christensen, O'Connor,
Johnson & Kindness
2700 Westin Building
2001 Sixth Avenue
Seattle, Washington 98121

Counsel for respondent, pursuant to Supreme Court Rule 28(c). All parties required to be served have been served.

Raymond J. Myers

Subscribed and sworn before me on October 5, 1988.

Orpha K. Thorson

Signature

OFFICIAL SEAL
ORPHA K THORSON
NOTARY PUBLIC - CALIFORNIA
LOS ANGELES COUNTY
My comm. expires MAY 11, 1990

Supreme Court, U.S.
FILED
NOV 2 1988
JOSEPH F. SPANIOL, JR.
CLERK

(2)

No. 88-592

In The

Supreme Court Of The United States

October Term 1988

PYROTRONICS CORPORATION,

Petitioner,

vs.

PYRODYNE AMERICAN CORP.

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

JAMES R. UHLIR
CHRISTENSEN, O'CONNOR,
JOHNSON & KINDNESS
2700 Westin Building
2001 Sixth Avenue
Seattle, WA 98121

Attorney for Respondent

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28 pp

QUESTION PRESENTED

Should a court consider equitable defenses in an action to enforce an incontestable trademark registration?

PARTIES TO THE PROCEEDING

Respondent Pyrodyne American Corp. is an Alabama corporation which acquired the fireworks business of Pyrodyne Corporation, a Washington corporation on September 30, 1988. Pyrodyne American Corp. is not an affiliate, a parent company, or a subsidiary of another company.

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No. 88-592

In The

Supreme Court Of The United States

October Term 1988

PYROTRONICS CORPORATION,

Petitioner,

vs.

PYRODYNE AMERICAN CORP.

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Respondent, Pyrodyne American Corp. (hereinafter "Pyrodyne") has considered the Petition for Writ of Certiorari

filed by Pyrotronics Corporation (hereinafter "Pyrotronics") and opposes the issuance of such writ for the reasons set forth hereafter in the argument portion of this brief. In addition, Respondent believes that the Statement of the Case portion of the Petition for Writ of Certiorari has ignored a number of significant facts and, consequently, is misleading. Respondent submits a Supplemental Statement of the Case that more clearly reflects the factual situation to which the relevant law is to be applied.

SUPPLEMENTAL STATEMENT OF THE CASE

Pyrotronics is the owner of Federal Trademark Registration No. 857,753 for the mark RED DEVIL for fireworks. This mark was registered on October 1, 1968, and the appropriate declarations having

been later filed, the registered mark has become incontestable under Section 15 of the Lanham Trademark Act, 15 U.S.C. § 1065.

Pyrodyne was initially incorporated under the name Zebra Fireworks Company, Inc., in the state of Washington in 1958. In 1966, it changed its name to Zebra Distributing Company, Inc. In 1970, Mr. Patrick Moriarity was Chairman of the Board and principal shareholder of both Zebra and Pyrotronics. At that time, Zebra was required to change its corporate name and Moriarity and the Board of Directors of Pyrotronics unanimously consented to Zebra's change of its name to, and use of, the trademark and trade name RED DEVIL in Zebra's Pacific Northwest trade territory where Pyrotronics had never operated. In particular, Zebra's trade territory included the states of

Washington, Oregon, Montana, Alaska, and northern Idaho.

At the July 17, 1970 meeting of its Board of Directors, Pyrotronics consented to Zebra's change of name to RED DEVIL. Zebra changed its name on August 30, 1970. The name change was ratified by all shareholders of Zebra, including Patrick Moriarity, Henry L. Bear and Harry A. Hescox, who were also members of the Board of Directors of Pyrotronics.

The minutes of the July 17, 1970 meeting of Pyrotronics Board of Directors include the following:

> The chairman then stated that Zebra Fireworks had requested the right to use Red Devil Fireworks Co., in their corporate name.
>
> It was moved, seconded and unanimously carried that the ZEBRA DISTRIBUTING CO., INC., be allowed to use the name of RED DEVIL FIREWORKS COMPANY in their corporate name. Subject to a license agreement to be prepared.

No license agreement was ever prepared or signed, but in 1970 Zebra changed its name to Red Devil Fireworks, Co. of Washington, Inc. and began to operate under the trade name RED DEVIL. In 1971, this corporate name was changed to Pyrodyne Corporation, but Pyrodyne continued to do business under the trade name RED DEVIL, and has done so continuously from that date to the present.

During the past ten years, Pyrodyne has expended a total of over $500,000 in advertising and promotion of the sale of fireworks under the RED DEVIL name in its trade territory. Pyrodyne has been the largest seller of fireworks in the state of Washington since 1962, and has sold over $24,000,000 worth of fireworks under the name RED DEVIL in its trade territory between 1977 and 1986.

From at least 1970 until late 1985, the officers, Boards of Directors, and shareholders of Pyrodyne and Pyrotronics were always closely intertwined. Mr. Moriarity served as Chairman of the Board of Directors of both Pyrotronics and Pyrodyne from 1968 through 1985. Pyrodyne purchased fireworks from Pyrotronics exclusively from 1962 until about 1975, but then began buying an increasing amount of fireworks from other sources, including directly from the Orient. These other purchases were made with Pyrotronics' knowledge and approval. In fact, in 1977, Mr. Hescox, then President of Pyrotronics, and a gentleman who remains a shareholder and Director of both Pyrodyne and Pyrotronics, placed orders for fireworks on behalf of Pyrodyne in the Orient. Pyrodyne paid Pyrotronics a 5% commission for this

buying service. In 1978 and 1979, Mr. Hescox accompanied Jerry Elrod, President of Pyrodyne, to the Orient and introduced him to fireworks manufacturers with the intent that these manufacturers would thereafter supply Pyrodyne with fireworks directly.

From 1970 through late 1985, Pyrodyne has been the exclusive user of the RED DEVIL name in its trade territory in the Pacific Northwest. On January 2, 1985, Darrell Byington, President of Pyrodyne, wrote to Harry Hescox, President of Pyrotronics, pointing out that he had not been able to find a written document granting plaintiff the right to use RED DEVIL and specifically requesting Mr. Hescox to reconfirm the grant as follows:

> It would seem appropriate that Pyrotronics issue the necessary papers to give the

> right to Pyrodyne for the use of these names since we have been using them for 20 years. It would be for the benefit of both companies if we clarify these issues now prior to some takeover of Pyrotronics. Let me know if there is any problem.

Mr. Hescox responded to Mr. Byington by letter of January 10, 1985, as follows:

> This letter is to re-confirm that agreement which has been in effect for approximately twenty (20) years that Pyrotronics Corporation has granted to Red Devil of Washington the right to use the names "RED DEVIL" and "PICCOLO PETE", which are registered and trademarked to Pyrotronics Corporation.
>
> The permission granted to use these names shall not obligate Pyrotronics Corporation in any way in the event of any future change in the legal status of the registrations and trademarks of the names involved.
>
> Pyrotronics Corporation has not granted the right to use these names to any other company.

Thereafter, Pyrotronics entered bankruptcy and was, in fact, taken over by new management. In late 1985, Pyrotronics opened an office under the name RED DEVIL in Spokane, Washington, and began to operate a fireworks business. Thereafter, Pyrotronics began using the RED DEVIL name on assortment boxes for fireworks, on fireworks stands, on signs and in advertising, including telephone directories throughout Pyrodyne's trade territory. The mark is not used on fireworks themselves.

Pyrodyne's attorney wrote Pyrotronics on March 3, 1986, requesting Pyrotronics to cease using the RED DEVIL name in its trade territory, and when Pyrotronics continued to operate under the RED DEVIL name in Pyrodyne's trade territory, Pyrodyne filed suit in the United States District Court for

the Eastern District of Washington. During oral argument on Pyrodyne's motion for a preliminary injunction, the District Court acknowledged that all of the equities were in Pyrodyne's favor, but felt constrained, nevertheless, to deny Pyrodyne's motion holding that the incontestability provisions of the Lanham Act should be strictly construed as eliminating equitable defenses. In so ruling, the District Court ignored controlling Ninth Circuit law and instead relied upon the case of Deflecta-Shield v. Kar-Rite, Corp., 1 U.S.P.Q. 2d, 1236 (N.D. Ill. 1986). Pyrodyne appealed the denial of its motion and the Ninth Circuit Court of Appeals reversed the District Court's ORDER. This Petition for Certiorari followed.

ARGUMENT

I. Incontestability Is Not A License To Act Inequitably

The crux of Pyrotronics' argument is that it has the right to ignore the consent agreement to use the RED DEVIL name which it made with Pyrodyne in 1970, abided by for 15 years while Pyrodyne built its business in reliance on its exclusive right to use the RED DEVIL name, and reconfirmed in January of 1985, solely because it is the owner of an incontestable trademark registration. Pyrodyne submits that there is no overriding policy in the Lanham Trademark Act allowing the owners of incontestable trademark registrations: to make agreements and then ignore them or to allow a company that has caused others to rely on its actions for many years to precipitously

change its course of action to the reliant's detriment.

Incontestability is a recognition of a registrant's exclusive right to use a trademark based on the registrant's statements made to the Trademark Office that he possesses such right. See 15 U.S.C. § 1065. It does not prevent the trademark owner from intentionally limiting his rights, before or after the registration becomes incontestable, such as by granting another the exclusive right to use the trademark in a particular geographic area remote from the owner's area of use. This is precisely what Pyrodyne did in 1970 when, before its registration became incontestable, it granted Pyrodyne the exclusive right to use the name RED DEVIL in Pyrodyne's Pacific Northwest trade territory where Pyrotronics had never before

operated. Preventing the owner of an incontestable trademark registration from arbitrarily ignoring such a grant through an exercise of the equitable defenses of laches and estoppel, does not weaken the rights granted by incontestability, but merely holds Pyrodyne to the rule of behavior required of all legal entities, namely, that it abide by its binding agreements.

II. The Decision Of The Court Of Appeals Is Not In Conflict With This Court's Park 'N Fly Decision

Pyrotronics argues that the Ninth Circuit Court of Appeals' decision in this case is somehow contrary to this Court's decision in Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 105 S.Ct. 658, 83 L.Ed.2d 582,

(1985). To the contrary, this Court, at footnote 22 in Park 'N Fly, stated the following:

> 22. The Court emphasizes that it does not address whether traditional equitable defenses are available in an action to enforce an incontestable mark. Ante, at 203, n 7, 83 L Ed 2d, at 593. Thus, the Court chooses not to rule on whether the language of § 33(b) can be ignored when a defense such as laches or estoppel is asserted. Several courts have indicated that such defenses are allowed (citations omitted). Several commentators have also written on the subject. 2 J. McCarthy, Trademarks and Unfair Competition 761 (1984). One early article noted: 'The fact that Section 33(b) limits the defenses against an incontestable mark to seven specific issues is possibly not conclusive. It is difficult to imagine an equity court granting injunctive relief to a registrant who comes into court with unclean hands, even though the defendant is unable to establish one of the seven specific defenses listed in Section 33(b). Other equitable doctrines

> such as laches and estoppel would probably also preclude junction and damages in the case of an incontestable mark. However, there is always the possibility that the courts might give the Act a strict and technical construction, precluding any defense except those specifically enumerated.' Diggins, The Lanham Trade-Mark Act, 35 Geo LJ 147, 195 (1947).

No clearer statement could be found that this Court did not consider the present issue in Park 'N Fly.

The assertability of equitable defenses in a trademark infringement context has been considered in at least one Court of Appeals case since the Supreme Court's decision in Park 'N Fly. In United States Jaycees v. Cedar Rapids Jaycees, 794 F.2d 379 (8th Cir. 1986), the Court refused to enter an injunction in a suit by the owner of an incontestable registration on the ground that the entrance of such an

injunction would not be consistent with "the principles of equity" as that phrase is used in 15 U.S.C. § 1116 (794 F.2d at 383). In discussing the Park 'N Fly case, that Court stated, at page 382:

> While the Court did say that the equitable power granted under § 1116 does not expand the seven enumerated defenses to the validity of an incontestable mark under § 1115(b), it specifically did not address the question raised here: 'whether traditional equitable defenses such as estoppel or laches are available in an action to enforce an incontestable mark.' 105 S.Ct. at 666 n. 7 (emphasis added). See also 105 S.Ct. at 673 and n. 22 (Stevens, J., dissenting). We do not believe that the limitations in § 1115(b) relating to the validity or ownership of a mark also limit the discretion of the court to give equitable relief appropriate to the circumstances of each case. To do so would indeed make injunctive relief a ministerial act, supra at 6, and wipe away the discretion which is inherent in the equitable power.

> In the present case, the ownership and validity of the registered mark 'Jaycees' are not at issue. The restrictions on defenses which are found in § 1115(b) are irrelevant since they come into play only when the validity of the mark is questioned.

In the present case Pyrodyne never attacked the validity of Pyrotronics' registration of the mark RED DEVIL. Pyrodyne merely asserts that it is entitled to use the RED DEVIL name exclusively in its trade territory in the Pacific Northwest where it had operated exclusively for 15 years, with Pyrotronics' consent and full knowledge, before Pyrotronics elected to begin unfairly competing under the same name.

III. Public Policy Requires That Pyrodyne be Allowed to Assert Equitable Defenses in This Case

Over the past 15 years, Pyrodyne's expenditures on advertising and its very substantial sales under the RED DEVIL name, have generated substantial and valuable goodwill which has redounded to its benefit and not to that of Pyrotronics. The purchasing public in Pyrodyne's trade area identifies the name RED DEVIL with Pyrodyne. This is necessarily the case since Pyrotronics has never operated in Pyrodyne's trade area. Failure to allow Pyrodyne to assert its well-founded defenses of estoppel by laches and estoppel by acquiescence against Pyrotronics' assertion of its incontestable trademark would allow Pyrotronics to usurp the goodwill which Pyrodyne has

developed in the RED DEVIL name over the past fifteen years. If this occurs, the purchasing public will be misled in that they will tend to believe that they are still purchasing from the same source with which they have dealt in the past, Pyrodyne, when, in fact, they will be dealing with a new and untried source, Pyrotronics.

A significant policy underlying the Lanham Trademark Act is to protect the purchasing public from precisely this type of confusion and deception. If Pyrodyne is prevented from asserting its equitable defenses, Pyrotronics will obtain legal sanction for what would clearly be trade name infringement and unfair competition were it not for a stilted reading of the incontestability provisions of the Lanham Trademark Act. This type of "bad" decision will not be unusual if courts

are required to ignore equity and reward the inequitable.

IV. Section 34 of the Lanham Act Specifically Sanctions Consideration of the Principles of Equity

Section 34 of the Lanham Act, 15 U.S.C. § 1116, clearly vests district courts with the power to grant injunctions "according to the principles of equity." See Cuban Cigar Brands N.V. v. Upmann International, Inc., 457 F.Supp. 1090, 1092 (S.D.N.Y. 1978). In that case, the court stated at footnote 5:

> It is clear from both the statute and the cases that laches is a defense even where a mark is incontestable under 15 U.S.C. § 1065. See 15 U.S.C. § 1116 (Court has power 'to grant injunctions, according to the principles of equity'); Roto-Rooter Corp. v. O'Neal, 513 F.2d 44 (5th Cir. 1975); John Wright,

> Inc. v. Casper Corp., 419 F.Supp. 292 (E.D.Pa 1976); Haviland & Co. v. Johann Haviland China Corp., 269 F.Supp. 928 (S.D.N.Y. 1967); Polaroid Corp. v. Polarad Electric Corp., 182 F.Supp. 350 (E.D.N.Y. 1960), aff'd., 287 F.2d 492 (2d Cir.), cert. denied, 386 U.S. 820, 82 S.Ct. 36, 7 L.Ed.2d 25 (1961).

In its petition, Pyrodyne attempts to explain away this clear statement by arguing that "principles of equity may be considered in determining the scope of relief available against an infringer, but not in establishing the trademark owner's right to such relief." Such a distinction finds no support in the Lanham Act or, indeed, in logic. The power to grant injunctions "according to the principles of equity" requires consideration of equitable principles both in deciding whether or not an injunction is to be granted, as well as in considering the scope of such an injunction.

CONCLUSION

There is no trademark right to be defended, nor public policy to be strengthened, by placing a gloss upon the Lanham Trademark Act which allows the owner of an incontestable trademark registration to act inequitably. The Petition for Writ of Certiorari should be denied.

DATED this 2nd day of November, 1988.

Respectfully submitted,

JAMES R. UHLIR
CHRISTENSEN, O'CONNOR,
JOHNSON & KINDNESS
2700 Westin Building
2001 Sixth Avenue
Seattle, WA 98121

Attorney for Respondent
Pyrodyne Corporation

CERTIFICATE OF SERVICE

I hereby certify that three copies of this BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT is being deposited with the U.S. Postal Service as first class mail in a sealed envelope with first class postage thereon fully prepaid, and addressed to:

Francis A. Utecht, Jr.
Suite 510, Harbor Bank Building
11 Golden Shore
Long Beach, California 90802,

Counsel for Petitioner, pursuant to Supreme Court Rule 28(c). All parties required to be served have been served.

James R. Uhlir
Attorney for Respondent

Date: November 2, 1988